

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 AGR-20 EUR-25 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15

STR-08 CEA-02 L-03 H-03 PRS-01 RSR-01 /176 W

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R 040447Z SEP 73

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 7093

INFO AMEMBASSY CANBERRA

LIMITED OFFICIAL USE SECTION 1 OF 2 WELLINGTON 2335

E.O. 11652: N/A

TAGS: OVIP, ETRD, NZ

SUBJ: DRAFT MEMORANDUM FOR KIRK VISIT: NZ-US BILATERAL
ECONOMIC RELATIONS

(1) BACKGROUND

THE UNITED STATES IS NEW ZEALAND'S SECOND MOST
IMPORTANT EXPORT MARKET AFTER THE UNITED KINGDOM. IT
IS THE THIRD LARGEST SOURCE OF NEW ZEALAND'S IMPORTS
(AFTER U.K. AND AUSTRALIA). THE TRADE BALANCE WITH THE
U.S. HAS LONG BEEN 1.6 TO 1 IN NEW ZEALAND'S
FAVOR.

(2) BEGINNING IN 1972 NEW ZEALAND'S OVERALL BALANCE
OF PAYMENTS TURNED STRONGLY IN ITS FAVOR. FOREIGN
EXCHANGE RESERVES NOW TOTAL MORE THAN \$US 1.5 BILLION,
AND ARE AMONG THE HIGHEST PER CAPITA IN THE WORLD.

(3) THERE ARE MORE JOBS AVAILABLE THAN UNEMPLOYED AND THE
KIRK GOVERNMENT FACES THE FACT THAT SINCE IT TOOK OFFICE
IN DECEMBER THE RATE OF INFLATION HAS MORE THAN DOUBLED

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FROM 4 1/2 PERCENT TO ABOUT 11 PERCENT. THE GOVERNMENT IS PARTICULARLY

SENSITIVE TO THE RISE IN DOMESTIC MEAT PRICES AND IT
MAY REDUCE MEAT EXPORTS TO INCREASE DOMESTIC SUPPLIES.

(4) THE PRINCIPAL CAUSE OF GOOD EXPORTS IS THE WORLD-
WIDE DEMAND FOR MEAT AND WOOL, TWO OF NEW ZEALAND'S
MAIN EXPORTS. CURRENTLY THE U.S. IS A MAJOR
CUSTOMER FOR THESE PRODUCTS BUT RETENTION OF CERTAIN
U.S. IMPORT RESTRICTIONS MAKES US A POOR CUSTOMER FOR
HER DAIRY PRODUCTS.

(5) SPECIAL COMMODITY PROBLEMS
WHILE KIRK SEES MORE ASSURED LONG RANGE ACCESS TO U.S.
MARKETS FOR NZ MEAT AND DAIRY PRODUCTS, HE KNOWS HIS
COUNTRY'S TRADE BARRIERS TO U.S. EXPORTS ARE HIGH AND IS
AWARE OF OUR UNFAVORABLE TRADE BALANCE
WITH N.Z. HE IS MOVING FROM BLANKET
PROTECTION TOWARD SELECTIVE PROTECTION OF EFFICIENT
INDUSTRIES. IN COMING MONTHS HE WOULD PROBABLY BE
WILLING TO DROP MORE BARRIERS IN RETURN FOR A Surer SHARE
OF THE U.S. MARKET AND ALSO TO STRENGTHEN U.S. -N.Z.
COOPERATION IN SEEKING BETTER AGRICULTURAL ACCESS TO THE
EC DURING GATT NEGOTIATIONS.

(6) CURRENT IRRITANTS
NEW ZEALAND HAS FOR SOME MONTHS BEEN IN VIOLATION OF
GATT ON SEVERAL ITEMS AFFECTING U.S. EXPORTS. THIS HAS
BEEN CALLED TO KIRK'S ATTENTION.

(7) NEW ZEALAND SUPPLIES OVER ONE-THIRD NON-FAT DRY
MILK MOVING IN WORLD TRADE. THE U.S. DECISION TO BUY
EXTRA NON-FAT POWDERED MILK ON A FIRST COME FIRST SERVED
BASIS PLACED DISTANT NEW ZEALAND AT A DISADVANTAGE. WHILE
THIS RECENT IRRITANT WAS REMOVED BY OUR DECISION TO BUY
MORE, IF THE U.S. MAKES A FURTHER SPECIAL NON-FAT
POWDERED MILK IMPORT ALLOCATION CONSIDERATION SHOULD BE
GIVEN TO A METHOD WHICH WOULD GIVE DISTANT SUPPLIERS AN
EQUAL CHANCE TO MEET SUDDEN U.S. NEEDS. IDEALLY NZ
WOULD LIKE A SHARE OF ANY FUTURE INCREASED ALLOCATION
APPROXIMATING ITS PRESENT WORLD PERCENTAGE.
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(8) PREFERENTIAL TRADE AGREEMENTS
WITH THE UNITED KINGDOM'S ENTRY INTO THE EEC, NEW ZEALAND
PLANS TO PHASE OUT ITS PREFERENTIAL TRADE AGREEMENT WITH
WTHE U.K. OVER A THREE YEAR PERIOD. THIS, TOGETHER WITH
RECENT CURRENCY REVALUATIONS, SHOULD ENABLE U.S.EXPORTERS
TO ACHIEVE A BETTER POSITION IN THE
NEW ZEALAND MARKET, BUT IT IS UNDERSTOOD KIRK INTENDS
TO MAINTAIN SOME PREFERENCES WITH OTHER COMMONWEALTH

COUNTRIES. HE IS INTERESTED IN MAINTAINING A SPECIAL ECONOMIC RELATIONSHIP WITHIN THE COMMONWEALTH, BUT HIS ECONOMIC LOGIC FOR THIS POSTITION IS OBSCURE AND AROUSED LITTLE INTEREST IN OTTAWA. WHY, FOR EXAMPLE, SHOULD NEW ZEALAND GIVE SPECIAL PREFERENCES TO CANADA AND ONLY MFN TO THE USA?

(9) U.S. -NEW ZEALAND ECONOMIC CONSULTATIONS
ANNUAL ECONOMIC CONSULTATIONS WERE INITIATED AT NEW ZEALAND'S REQUEST. ORIGINALLY PRODUCTIVE, THEY HAVE RECENTLY BECOME REPETITIVE. KIRK IS NOT VERY INTERESTED AND MIGHT AGREE TO A ONE DAY CONSULTATION IN WASHINGTON IN 1974 RATHER THAN TO A 1973 MEETING IN WELLINGTON. MOST OF THESE MATTERS CAN BE HANDLED THROUGH NORMAL CHANNELS.

(10) NEW ZEALAND'S IMPORT RESTRICTIONS
NEW ZEALAND MAINTAINS A POLICY OF IMPORT CONTROL WHICH UTILIZES BOTH IMPORT LICENSING (COVERING ABOUT 30 PERCENT OF ITS IMPORTS) AND RELATIVELY HIGH PROTECTIVE TARIFFS. KIRK MAY BE CONSIDERING REDUCING TARIFFS AND KEEPING FEWER AND MORE FLEXIBLE QUOTAS. YOU MAY WISH TO COMMENT THAT THE U.S. WANTS AN EQUITABLE CHANCE TO COMPETE WITH OTHER COUNTRIES AND TO NOTE THAT RETENTION OF NEW ZEALAND'S LICENSING SYSTEM IN ITS PRESENT FORM TENDS TO HOLD TRADE TO TRADITIONAL , U.K. DISTRIBUTORS WITHOUT ENOUGH OPPORTUNITY FOR CHANGES REFLECTING NEW PRODUCTS AND NEW TECHNIQUES BENEFICIAL TO N.Z.
WOOD

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ACTION EA-14

INFO OCT-01 ADP-00 AGR-20 EUR-25 AID-20 CIAE-00 COME-00

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R 040447Z SEP 73

FM AMEMBASSY WELLINGTON
TO SECSTATE WASHDC 7094
INFO AMEMBASSY CANBERRA

LIMITED OFFICIAL USE FINAL SECTION OF 2 WELLINGTON 2335

E.O. 11652: N/A
TAGS: OVIP, ETRD, NZ
SUBJ: DRAFT MEMORANDUM FOR KIRK VISIT: NZ-US BIALTERAL
ECONOMIC RELATIONS

KIRK REALIZES NEW ZEALAND MUST
KEEP UP WITH NEW TECHNOLOGY WHICH CAN HELP ITS OWN
PRODUCTIVITY. NEW ZEALAND'S FAVORABLE BALANCE OF
PAYMENTS POSITION AND LARGE FOREIGN EXCHANGE RESERVES
MAKE FOR A FAVORABLE CLIMATE FOR THE RELAXATION OF
IMPORT RESTRICTIONS AS PART OF ITS GATT NEGOTIATING
POSITION, BUT N.Z. INFLATION IS NOW RISING SO FAST
THAT IT MIGHT CONSIDER AN EARLIER LOWERING OF SOME
BARRIERS (CF AUSTRALIA) TO EASE DOMESTIC
PRICES ON IMPORTED MANUFACTURED GOODS. KIRK ARGUES
PUBLICLY THAT N.Z. IS IMPORTING INFLATION BUT REALIZES
THAT N.Z.'S OWN TARIFFS AND PROTECTION OF INEFFICIENT
DOMESTIC INDUSTRIES ADD MUCH TO PRICES N.Z. CONSUMERS MUST
PAY.

(11) FOREIGN INVESTMENT POLICY

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THE LABOUR GOVERNMENT IS DEVELOPING A MORE SELECTIVE
POLICY REGARDING FOREIGN INVESTMENT. IN FUTURE A
COMMISSION WILL REVIEW EACH NEW INVESTMENT PROPOSAL
TO DETERMINE ITS USEFULNESS TO THE NEW ZEALAND ECONOMY.
ALTHOUGH CERTAIN INTERESTS ARE BECOMING MORE VOCAL IN
CRITICISING FOREIGN INVESTMENT IN REAL ESTATE AND BY
MULTI NATIONALS, THERE ARE AS YET NO INDICATIONS THAT NEW
ZEALAND INTENDS TO EXCLUDE NEW INVESTMENT OR ESTABLISH
RULES FOR EXISTING INVESTMENTS SO ONEROUS AS TO FORCE
FOREIGN FIRMS TO PULL OUT. BUT THERE ARE DEFINITE
RULES APPLYING ONLY TO FOREIGN FIRMS (THOSE WITH 25 PERCENT OR
MORE FOREIGN CAPITAL) SUCH AS RESTRICTIONS ON BORROWING
IN NEW ZEALAND.

(12) MONETARY

THERE ARE NO SERIOUS U.S. -N.Z. MONETARY PROBLEMS. U.S.
DEVALUATIONS PLUS A RECENT 3 PERCENT REVALUATION OF THE N.Z.
DOLLAR HAVE STRENGTHENED OUR TRADE POSITION. A FURTHER

REVALUATION OF THE N.Z. DOLLAR IS UNDER REVIEW.

(13) N.Z. IMPORTS FROM U.S.

OUR MOST IMPORTANT SALES ARE IN HEAVY AND SOPHISTICATED
EQUIPMENT WHICH NEW ZEALAND CANNOT HOPE TO PRODUCE.
WITH A STEADY INCREASE IN TOURISM, NEW ZEALAND IS
PROBABLY GOING TO ORDER ITS FOURTH DC-10 . WE WILL
ENCOURAGE COMPUTER SALES WITH A TRADE FAIR IN WELLINGTON FOCUSED
ON THIS PRODUCT IN OCTOBER, AM-TECH '73.
WOOD

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